

Is Corporate Social Responsibility Priced? Evidence from Audit Pricing

Abstract: We examine the impact of corporate social responsibility (CSR) on audit pricing. Kim, Park, and Weir (2012) document that firms engaged in socially responsible activities constrain earnings management, suggesting that ethical concerns may drive managers to produce more transparent and reliable financial reports. We argue that audit fees will decrease if perceived risks associated with a socially ethical company decrease. Consistent with our hypothesis, we present evidence that audit fees are negatively associated with CSR. Moreover, we find that the audit fee premium is driven mainly by CSR concerns rather than CSR strengths. The results are robust to alternative measures of CSR, controls for corporate governance and external monitoring mechanisms and consideration of self-selection bias. This study not only suggests that the ethical behavior of management implied in CSR performance earns a fee discount but also that audit firms value ‘tone at the top’ in their audit pricing decisions.

Keywords: Audit Fees, Audit Pricing, Audit Risk, Corporate Social Responsibility, Engagement Risk, Ethical Behavior

Data Availability: Data used in this study are available from public sources identified in the article.